

***California Public Employees' Retirement
System—Managed S&P 500 Fund
Investment Option of The State of
California Savings Plus Program,
Department of Personnel Administration***

*Financial Statements as of and for the
Year Ended June 30, 2007, for the period
July 1, 2007 through August 7, 2007, and
Independent Auditor's Report*

Board of Administration
California Public Employees' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of net assets available for benefits of the California Public Employees' Retirement System ("CalPERS") – Managed S&P 500 Fund (the "Fund") Investment Option of the State of California Savings Plus Program, Department of Personnel Administration as of June 30, 2007 and August 7, 2007 and the related statements of changes in net assets available for benefits for the year ended June 30, 2007 and for the period July 1, 2007 through August 7, 2007. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CalPERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2007 and August 7, 2007, and the changes in net assets available for benefits for the year ended June 30, 2007 and for the period July 1, 2007 through August 7, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements present only the CalPERS – Managed S&P 500 Fund Investment Option of the State of California Savings Plus Program, Department of Personnel Administration and are not intended to present the net assets available for benefits or changes in net assets available for benefits of any other options or funds of the State of California Savings Plus Program or of the Department of Personnel Administration of the State of California.

As discussed in Note 5 to the financial statements, CalPERS' has discontinued managing the Fund after August 7, 2007 and the plan assets were transferred to a new plan manager employed by the State of California Department of Personnel Administration.

Management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

Sacramento California

February 14, 2008

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM—MANAGED S&P 500 FUND INVESTMENT OPTION OF THE STATE OF CALIFORNIA SAVINGS PLUS PROGRAM, DEPARTMENT OF PERSONNEL ADMINISTRATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007 AND FOR THE PERIOD JULY 1, 2007 THROUGH AUGUST 7, 2007

This section presents management's discussion and analysis of the California Public Employees' Retirement System ("CalPERS")-Managed S&P 500 Fund (the "Fund") Investment Option of the State of California Savings Plus Program, Department of Personnel Administration ("State Savings Plus Program"). CalPERS, as the Investment Manager, is pleased to provide this discussion and analysis of financial activities for the year ended June 30, 2007 and for the period July 1, 2007 through August 7, 2007. Please read it in conjunction with the rest of the report, which consists of the basic financial statements, including the notes thereto.

CalPERS is responsible for managing the contributions received from the State Savings Plus Program in the S&P 500 Fund investment option.

FINANCIAL HIGHLIGHTS AND ANALYSIS

Defined Contribution Pension Plan Investment Option

- On August 7, 2007 CalPERS ceased to manage the S&P 500 Fund investment option of the State of California. On that date assets were transferred to the trustee for the State Savings Plus Program.
- In the June 30, 2007 fiscal year end, the Fund's net assets increased by \$149.1 million. The increase was primarily due to robust rates of return in the domestic equity market. The increase was comprised of participant contributions of \$71.8 million and net investment income of \$175.4 million, offset by withdrawals and fees of \$37.7 million and exchanges and transfers out of \$60.4 million.
- In the partial year ending August 7, 2007, the Fund's net assets decreased by \$ 14.5 million. The decrease is mainly attributed to a domestic equity market decline during the period. The decrease was comprised of \$16.8 million of investment losses, \$9.6 million of withdrawals and net transfers out, offset by \$11.9 million of participant contributions.
- The contributions to the Fund decreased by \$1.7 million to \$71.8 million in 2007 from \$73.5 million in 2006. The decrease is attributed to participant's knowledge that the Fund would no longer accept contributions after August 7th and they selected alternative options within the State Program to place their contributions.
- Partial year contributions of \$11,979,726, comprised of two State payroll dates, were approximately one sixth of the prior full year.
- Distributions increased a slight \$1.2 million for the year ended June 30, 2007 primarily due to an increasing number of State retirees.
- Exchanges to other options within the State Program decreased by \$27.6 million from 2006 to 2007. The decrease can be attributed to participants satisfaction with the superior 2007 investment return over other options within the program.

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- There were 57,467 participants in the Fund as of June 30, 2007, 57,323 as of June 30, 2006 and 57,380 on July 31, 2007.
- The 2006/2007 fiscal year rate of return for the Fund is 20.5%, and the partial 2007/2008 year was (3.11)%. Investment performance for the two years was consistent with the established benchmark for the Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

Management's Discussion and Analysis provides an introduction to and overview of the CalPERS—Managed S&P 500 Fund Investment Option of the State of California Savings Plus Program's financial statements, which comprise of the following components: 1) Statement of Net Assets Available for Benefits, 2) Statement of Changes in Net Assets Available for Benefits and 3) Notes to the financial statements.

1. The Statement of Net Assets Available for Benefits presents the financial position of the Fund as of June 30, 2007 and the partial year ended on August 7, 2007.
2. The Statement of Changes in Net Assets Available for Benefits presents the Fund's additions to and deductions from the net assets during the year and partial year. The Fund receives contributions from plan participants, and invests the money in stocks in order to earn dividends. These securities are also subject to market gains and losses. Deductions include withdrawals to members who leave the plan, transfers to other investment options and administrative expenses. The change in net assets during the year is added to or subtracted from the beginning balance of the Fund's net assets to obtain the balance of the Fund's net assets at the end of the year.
3. The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the Statement of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

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SUMMARY OF FINANCIAL INFORMATION

The following Statement of Net Assets Available for Benefits and Changes in Net Assets Available for Benefits presents financial information for the Fund, comparing the 2007 fiscal year with 2006 fiscal year information, and the 2007 partial year with the June 30, 2007 full year. This information has been derived from the Statements of Net Assets Available for Benefits and the changes therein for those two fiscal years and the partial year:

COMBINED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Change</u>	<u>Percentage</u>
Equity Investments	<u>\$ 997,242,405</u>	<u>\$ 848,138,460</u>	<u>\$ 149,103,945</u>	17.6%
CalPERS Investment Management Fees Payable	<u>23,955</u>	<u>22,022</u>	<u>1,933</u>	8.7%
Net Assets Available for Benefits	<u>\$ 997,218,450</u>	<u>\$ 848,116,438</u>	<u>\$ 149,102,012</u>	17.6%
	<u>August 7, 2007</u>	<u>June 30, 2007</u>	<u>Change</u>	<u>Percentage</u>
Equity Investments	<u>\$ 982,711,889</u>	<u>\$ 997,242,405</u>	<u>\$ (14,530,516)</u>	(1.5)%
CalPERS Investment Management Fees Payable	<u>6,156</u>	<u>23,955</u>	<u>(17,799)</u>	(74.3)%
Net Assets Available for Benefits	<u>\$ 982,705,733</u>	<u>\$ 997,218,450</u>	<u>\$ (14,512,717)</u>	(1.5)%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM—MANAGED S&P 500
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	June 30, 2007	June 30, 2006	Change	
			Amount	Percentage
ADDITIONS:				
Participant contributions	\$ 71,789,312	\$ 73,569,912	\$ (1,780,600)	(2.4)%
Investment income, net of fees	22,999,846	18,486,653	4,513,193	24.4 %
Net appreciation in fair value of investments	<u>152,436,488</u>	<u>52,563,147</u>	<u>99,873,341</u>	190.0 %
	<u>247,225,646</u>	<u>144,619,712</u>	<u>102,605,934</u>	70.9 %
DEDUCTIONS:				
Distributions and withdrawals	37,028,904	35,861,598	1,167,306	3.3 %
Administration fees to DPA	<u>640,029</u>	<u>645,453</u>	<u>(5,424)</u>	(0.8)%
Total deductions	<u>37,668,933</u>	<u>36,507,051</u>	<u>1,161,882</u>	3.2 %
NET TRANSFERS OUT	<u>(60,454,701)</u>	<u>(88,098,927)</u>	<u>27,644,226</u>	(31.4)%
INCREASE IN NET ASSETS	149,102,012	20,013,734	129,088,278	645.0 %
NET ASSETS AVAILABLE FOR BENEFITS:				
Beginning of year	<u>848,116,438</u>	<u>828,102,704</u>	<u>20,013,734</u>	2.4 %
End of year	<u>\$ 997,218,450</u>	<u>\$ 848,116,438</u>	<u>\$ 149,102,012</u>	17.6 %

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STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	<u>August 7, 2007</u>	<u>June 30, 2007</u>
ADDITIONS:		
Participant contributions	\$ 11,979,726	\$ 71,789,312
Investment income, net of fees	-	22,999,846
Net appreciation in fair value of investments	<u>(16,807,093)</u>	<u>152,436,488</u>
Total additions	<u>(4,827,367)</u>	<u>247,225,646</u>
DEDUCTIONS:		
Distributions and withdrawals	4,586,800	37,028,904
Administration fees to DPA	<u>53,758</u>	<u>640,029</u>
Total deductions	<u>4,640,558</u>	<u>37,668,933</u>
NET TRANSFERS OUT	<u>(5,044,792)</u>	<u>(60,454,701)</u>
INCREASE (DECREASE) IN NET ASSETS	(14,512,717)	149,102,012
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	<u>997,218,450</u>	<u>848,116,438</u>
End of year	<u>\$ 982,705,733</u>	<u>\$ 997,218,450</u>

Requests for Information

This financial report provides a general overview of the financial status of the CalPERS'-Managed S&P 500 Fund Investment Option of the State of California Savings Plus Program. If you have questions concerning any of this information or need additional financial information, please contact the CalPERS Investment Office-Supplemental Savings Programs Division, P. O. Box 942713, Sacramento, CA 94229-2713.

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**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2007 AND AUGUST 7, 2007**

	<u>August 7, 2007</u>	<u>June 30, 2007</u>
ASSETS—Equity Investments	\$982,711,889	\$997,242,405
LIABILITIES—CalPERS Investment Management Fees Payable	<u>6,156</u>	<u>23,955</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$982,705,733</u>	<u>\$997,218,450</u>

See notes to the financial statements.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM—MANAGED S&P 500
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**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED JUNE 30, 2007 AND FOR THE PERIOD JULY 1, 2007
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	<u>August 7, 2007</u>	<u>June 30, 2007</u>
ADDITIONS:		
Participant contributions	\$ 11,979,726	\$ 71,789,312
Investment income, net of fees	-	22,999,846
Net appreciation (depreciation) in fair value of investments	(16,807,093)	152,436,488
Total additions	<u>(4,827,367)</u>	<u>247,225,646</u>
DEDUCTIONS:		
Distributions and withdrawals	4,586,800	37,028,904
Administration fees to DPA	53,758	640,029
Total deductions	<u>4,640,558</u>	<u>37,668,933</u>
TRANSFERS:		
Transfers out	(2,431,305)	(23,156,607)
Exchanges	(3,051,132)	(41,399,909)
Transfers in	<u>437,645</u>	<u>4,101,815</u>
Total transfers	<u>(5,044,792)</u>	<u>(60,454,701)</u>
INCREASE/DECREASE IN NET ASSETS	(14,512,717)	149,102,012
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	<u>997,218,450</u>	<u>848,116,438</u>
End of year	<u>\$ 982,705,733</u>	<u>\$ 997,218,450</u>

See notes to the financial statements.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM—MANAGED S&P 500
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**NOTES TO THE FINANCIAL STATEMENTS
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THROUGH AUGUST 7, 2007**

1. DESCRIPTION OF THE PLAN

Reporting Entity – The financial statements represent only the activities of the CalPERS-Managed S&P 500 Fund (the “Fund”) Investment Option of the State of California Savings Plus Program, Department of Personnel Administration (the “State Savings Plus Program”). The financial statements are not intended to present the net assets available for benefits or the changes in net assets available for benefits of any other options or funds of the Savings Plus Program or of the plan sponsor, the State of California Department of Personnel Administration (“DPA”). The financial statements of the Fund are included in the financial statements of the State of California as the State represents the primary government and has ultimate oversight responsibility for the Fund.

The State Savings Plus Program was established in 1974 as a voluntary program which provides eligible State employees the opportunity to invest pre-tax income in two plans authorized by the Internal Revenue Code (“IRC”). The Program consists of several investment options under both a Deferred Compensation (“IRC 457”) plan, established in 1974, and a 401(k) plan, established in 1985 (collectively, the “Plans”). All full-time State employees are eligible to participate in either or both plans. The forgoing description provides only general information. Participants should refer to the Plan documents for a complete description of the State Savings Plus Program, which are available from the DPA.

The DPA has entered into a contract with the California Public Employees’ Retirement System (“CalPERS”) for prescribed fees and services related to managing an investment option. The CalPERS-Managed S&P 500 Fund Investment Option of the State Savings Plus Program was organized in 1991 to provide State employees an additional investment option in the Savings Plus Program.

There were 57,467 participants in the Fund as of June 30, 2007. On July 31, 2007, the last date participant count information was available before CalPERS ceased management of the Fund, there were 57,380 participants.

Participant Accounts – Each participant’s account is credited with the participant’s contributions and share of earnings which are immediately vested. Contributions to the Fund are deducted from participant payroll and are applied to the participant accounts, generally within 1-2 business days. The participants’ assets in the IRC 457 plan and the 401(k) plan are held in trust for the exclusive benefit of participants and their beneficiaries. Individual participant account records for both plans are maintained by Nationwide Retirement Solutions, Inc., acting as the recordkeeper. Bank One Trust Company acts as trustee for all State Savings Plus Program’s assets.

Participants elect the amount of their contributions based on a minimum of \$20 per payroll cycle, up to the maximum amount allowed by law, and direct the investment in either or both of the Plans. Participants may change their contribution and investment options at any time.

Upon separation from State employment, participants may elect to leave their contributions in the Fund, rollover their contributions into another qualified plan or to an IRA, purchase an annuity, or receive a distribution subject to federal and state income tax provisions and possible penalties in certain circumstances.

Under the IRC 457 plan, participants are eligible to receive a distribution upon retirement or separation from the State. IRC 457 plan participants may elect distributions in the form of a lump sum payment, a partial lump sum payment, periodic payments, purchase of an annuity, a rollover transfer into another eligible plan or to an IRA, or any combination of these choices.

Under the 401(k) plan, participants may receive a distribution upon reaching age 59½ or age 55, if retired. 401(k) plan participants may request a lump sum payment, a rollover into an IRA or another qualified plan, an annuity purchase, or a combination of these choices.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied in the preparation of the financial statements:

Basis of Accounting – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Participants' contributions are recognized in the period that contributions are remitted to the Fund. Distributions and withdrawals are recorded when paid. Management fees and other expenses are recorded when incurred.

Use of Estimates – In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, Fund management uses estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from these estimates.

Investments – Investments are reported at their fair value as determined by current market quotes. Participants of the State Savings Plus Program direct the investment of funds among the various investment options of the State Savings Plus Program. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements. Investments are subject to certain types of risks; including credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The following describes those risks:

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of August 7, 2007 and June 30, 2007, one hundred percent (100%) of the Fund's investments are comprised of equity securities that do not possess credit risk.

Custodial Credit Risk – Custodial credit risk is the risk that in the event a financial institution or counterparty fails, the Fund would not be able to recover the value of its investments. As of August 7, 2007 and June 30, 2007, one hundred percent (100%) of the Fund's investments are held in the name of CalPERS and are not exposed to custodial credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. As of August 7, 2007 and June 30, 2007, the Fund has no investments in a single issuer that exceeds 5% of total fair value of all of the Fund’s investments.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of August 7, 2007 and June 30, 2007, one hundred percent (100%) the Fund’s investments are comprised of equity securities that do not possess interest rate risk.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of August 7, 2007 and June 30, 2007, one hundred percent (100%) of the Fund’s investments are comprised of equity securities denominated in US dollars with no risk of loss arising from changes in currency exchange rates.

Allocations – CalPERS directs State Street Bank and Trust to pool the investments for the Fund with investments of the CalPERS Public Agency Deferred Compensation Program (“Public Agency Program”). The net assets available for benefits for each fund and each program are accounted for separately. Investments and interest and dividends receivable are allocated to the State Savings Plus Program and the Public Agency Program based on the relative percentages of total net assets. Earnings are credited to participant accounts based on the account’s market value at the end of each day. The financial statements of the Public Agency Program are included in the CalPERS Comprehensive Annual Financial Report.

Exchanges – Exchanges represent the movement of participants’ contributions between the different investment options of the State Savings Plus Program.

Transfers – Transfers represent participants accounts moving from or to another qualified plan.

3. FUND SHARES

At June 30, 2007, the Fund held the following shares in each of the respective Programs:

<u>Investment Option</u>	<u>State Savings Plus Program</u>	<u>CalPERS 457 Deferred Compensation Program (IRC 457)</u>	<u>Total Fund Shares</u>
		<u>(not covered by this Independent Auditors' Report)</u>	
S&P 500 Fund	74,095,579	10,397,360	84,492,939

Fund shares not held by the State Savings Plus Program participants are held by participants of the Public Agency Program, the financial statements of which are audited and included in the CalPERS Comprehensive Annual Financial Report.

4. MANAGEMENT FEES

Under contract with the DPA, CalPERS receives an asset-based management fee of 0.029% (2.9 basis points) of the S&P 500 Fund’s account balance, per year.

For the year ended June 30, 2007, \$268,922 of the investment management fees, which are netted against investment income in the statements of changes in net assets available for benefits, were paid to CalPERS.

Under a revenue sharing agreement, a portion of the investment management fees for the Fund are remitted to DPA.

The DPA separately receives additional administrative fees, which are assessed monthly against the market value of each participant's account at the end of the respective month as follows:

Market Value	Monthly Fee
\$0.01–\$19,999.99	\$ 2.00
\$20,000.00–\$34,999.99	2.40
\$35,000.00–\$49,999.99	2.70
\$50,000.00–\$99,999.99	3.00
\$100,000.00 and over	4.05

Various fees for transfers and other items are assessed by DPA on a per-transaction basis and charged to the participant accounts. These fees are reflected as administrative fees in the statements of changes in net assets available for benefits.

5. SUBSEQUENT EVENTS

After August 7, 2007, CalPERS discontinued managing the investments of the S&P 500 Option of the State Savings Plus Plan. The plan assets held in custody by State Street Bank on behalf of CalPERS were transferred to the new plan manager employed by the State of California Department of Personnel Administration.

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